

## NEW BUSINESS STRATEGY



Shigeya Kato  
Vice Chairman and Representative Director

### What is Showa Shell's strategy and the strengths of its new businesses?

**Q**

**A**

There are a number of reasons why we are thoroughly strengthening our development of new businesses while working to expand our existing core businesses. Firstly, as a social responsibility demanded of an energy company, we need to drive forward energy development that is efficient and has a low environmental burden. As environmental issues increasingly become the topic of serious worldwide debate, we are determined to steadily implement environmental measures that are feasible for Showa Shell.

Secondly, in order to boost our corporate value and ensure further growth in the future, we have to nurture second and third core businesses while expanding earnings through the fulfillment of our responsibility to supply oil products.

If crude oil prices continue to be at the high levels as we have seen recently, the demand for new energies that can substitute for oil will expand and the development of those energies should accelerate. Our policy is to look for business opportunities in these areas and to seize those openings as growth opportunities.

Showa Shell is already involved in a range of energy businesses, including solar powered cells, distributed power generation, the independent power producer (IPP), fuel cells, gas to liquids (GTL) fuel and the sale of city gas and LNG. We believe these experiences add to our competitiveness as they can be used to tap diverse energy sources in the future, which will enable us to meet the needs of even more customers.

What is more, the dealers that support our main fuel sales and LP gas businesses give us strategic access to the market, since these dealers already have many latent customers. This is a great advantage that competitors do not possess, particularly in building of new businesses.



Miyazaki Plant. Commercial production of CIS solar powered cells began in 2007



CIS solar powered cells installation example

### What is the current status of and future challenges for the CIS solar powered cells business?

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**A**

The market for solar powered cells will continue growing as global environmental issues mount. In the past few years, in particular, the global solar powered cells market has been expanding rapidly at an annual rate of as much as 30 to 40%. We have had our eye on this field from early on, and have continued R&D in it for over 30 years. Based on those results, we decided in 2005 to commercialize the business. Since July 2007, we have been operating our first plant, with a production capacity of 20 megawatt per year. During 2007, we accumulated the know-how for ensuring stable production and have already entered full-scale production.

As the solar powered cells market grows, the competitive environment of this market is changing rapidly. The rise of new manufacturers in South Korea and China is especially striking, setting the stage for what looks to be growing competition in the market. As for our own competitiveness, we believe that we can secure an advantageous position with premium products featuring superior design on top of high performance.

The next stage in the development of this business is to put our marketing strategy on track while expanding the scale of production. So far we have given priority to marketing in Europe, which has a more developed market for solar powered cells. However, we are looking to gradually develop a market here in Japan. Furthermore, we are moving along with R&D to further improve conversion efficiency. This is the driver that will increase the cost competitiveness of our products dramatically.

### What is the current status of Showa Shell's power generation business?

**Q**

**A**

Electrical power demand will continue to increase as environmental awareness becomes more prevalent in households and industry. Imagining the business environment of the future, we think that flexible electric power marketing will make new business opportunities. Accordingly, we are preparing to enter the power generation business in 2010 through Ohgishima Power Co., Ltd., a joint venture established with Tokyo Gas.

The power plant at Ohgishima Power Co.,Ltd. will employ gas turbine combined cycle power generation, which is a highly efficient power generation method using natural gas. In 2007, we obtained trading member qualifications for the Japan Electric Power Exchange (JEPX) in preparation for plant operation and finished registration as a power producer and supplier (PPS) in preparation for retailing electric power. These steps will allow us to accumulate electrical power marketing knowledge.